

**DUE DATE SLIP****GOVT. COLLEGE, LIBRARY**

KOTA (Raj.)

Students can retain library books only for two weeks at the most.

BORROWER'S No.	DUE DATE	SIGNATURE

# THE COTTON INDUSTRY OF INDIA

## PROSPECT AND RETROSPECT

BY

**K. L. GOVIL**

M.A., B.COM., F.C.I. (Birm.)

UNIVERSITY OF ALLAHABAD



**HIND KITABS**  
PUBLISHERS : BOMBAY

*First Published, 1945*

COPYRIGHT

PRINTED BY M. E. KARIM AT DELUX PRINTERS, VICTORIA  
GARDEN ROAD, BYCULLA, BOMBAY, 27, AND PUBLISHED BY  
V. KULKARNI, HIND KITAB, 267, HORNEY ROAD, BOMBAY

# CONTENTS

	PAGE
Early History ... ..	5
East India Company and After ... ..	6
Mill Industry ... ..	9
Progress of Cotton Mill Industry of India, 1880 1914 ( <i>Table</i> ) ... ..	13
The War Period 1914 to 1918 ... ..	14
The Post War years 1919 to 1921 ... ..	15
Exchange ... ..	16
Labour ... ..	17
Cotton Textile Industry in India from 1899 to 1922	17
Between 1923 and 1926 ... ..	18
Causes of the Depression. World Factors ...	19
Causes Peculiar to India ... ..	20
Remedies ... ..	22
Additional Protection .. ...	28
Indo Japanese Trade Agreement of 1937 ...	32
Criticism ... ..	33
Lees-Mody Pact ... ..	34
Indo-British Trade Agreement of 1935 ...	36
During the War ... ..	39
Progress of Cotton Mill Industry of India 1915-1942 ( <i>Table</i> ) .. ...	40
Consumption of Cotton Piece-goods and Hand-Loom Products in India ( <i>Table</i> ) ...	41
Government Measures ... ..	45
Civilian Supplies ~ ~ ~ ~	47

# CONTENTS (*Continued*)

Distribution of Standard Cloth	...	...	47
Ceiling Prices	...	...	50
A Plan for the Future	...	...	52
Lines of Rationalization or Planning	...	...	54
Raw Material	...	...	55
Saving of Labour Cost	...	...	56
Combination	...	...	57
Regional Specialization	...	...	58
The Hand-Loom	...	...	61
Financial Organization	...	...	64
Marketing	...	...	65
Production of Mill Machinery and Other Stores			68
Education	...	...	68
Research	...	...	69
Power Resources	...	...	69
Industrial Data	...	...	70
Railway Rates and Fiscal Policy	...	...	70

## EARLY HISTORY

The cotton industry has probably always occupied the place of honour in the industrial system of this country. It is authoritatively claimed that India is the accredited birth-place of cotton manufactures<sup>1</sup>. Certain passages in the Rig Veda, Mahabharata, Ramayana, Puranas, etc. indicate the antiquity and flourishing state of the industry. Baine in his book *The History of the Indian Manufactures* observes that the birth-place of cotton manufactures is India where it has flourished probably from pre historic times.

During the Buddhist period the export of Indian cotton fabrics was of world-wide importance and the industry continued to make remarkable progress in the cottage form; unfortunately no systematic record of the progress of the industry is available up to the 15th century except the scattered accounts given by travellers and ambassadors who visited India during these centuries. They have all paid glowing tributes to the craftsmanship of Indian artisans.

Then came the Muslims. The early Muslim period is particularly noted for wars, rebellions and other disturbances which must have arrested the development of the industry. But luckily this period was a short one. The Mughals established a strong government and gave law and order to the country. As lovers of luxuries and of fine articles the Mughal Emperors extended the royal patronage to the textile industry which was by then established on the *Larkhana* basis. Foreign travellers like Sir Thomas Roe, Peter Mundy, Bernier, Tavernier and others bear testimony to this fact. Moreland in his book *India at the Death of Akbar* remarks that the cotton industry in India was at this period much the most important handicraft. It was widely spread throughout the whole country but certain centres had specialized in the

1 J. A. Mann — J. R. A. S. of Great Britain Vol. XVII, p. 347

production of fine varieties of cloth, e.g., Dacca Dacca alone, however, did not produce the world-famous 'Dacca muslins' but Kasimbazar, Sunargaon and other places also made their own contributions. The printed calico or chintz was a speciality of the Coromondal coast. Muslipatam, Madras, Gujerat, Ahmedabad and Benares were other notable centres. While paying tribute to the cotton manufactures of India Lavernier remarked 'They are so fine that you can scarcely feel them in your hand and they were woven from thread of such extraordinary delicacy that a single pound of cotton was spun out into a length of 250 miles.'

The important thing to note is that these fine and artistic goods were produced with crude implements and mostly in the homes of the artisans. The relations between capital and labour were cordial and the system of industrial organization was that of the domestic type. Here and there *karkhanas* were springing up. The artisan made goods to order or on his own account. Some of them served as apprentices and journeymen in a craft guild. While Indian art was of exquisite beauty and perfection, the Indian artisan was by no means rich and prosperous. He worked for the benefit of the merchant and for the enjoyment of the rich. 'The *Grandeess* pay for a work of art considerably under its value' is the remark of Bernier.

Indian looms had not only a practical monopoly of the home market for cloth but, according to Moreland, had also three principal export markets—Arabia and beyond, Burma and the Eastern Islands, and the East Coast of Africa.

## EAST INDIA COMPANY AND AFTER

After the death of Aurangzeb in 1707 forces of disruption and disintegration were let loose owing to the absence of a central authority to control and rule such an

extensive Empire Revolts and uprisings under different banners and foreign invasions upset the whole industrial life of the country The British merchants and other European traders stepped into the gaps caused by the break up of the Mughal Empire For some time these European buyers were quarrelling among themselves for supremacy of the Indian trade but ultimately the British won and the East India Company acquired political power in 1765 to collect Diwani etc This had a great effect on the textile industry which received an impetus for some time from the East India Company It imported craftsmen and designers from the West to teach British designs because then it was essentially a trading concern and it was in its interest to develop Indian industries But the Company had to meet very strong opposition at home because Indian textile goods competed with British silk and woollen goods and there was no market in India for British goods It was a period when Great Britain was following a policy of *mercantilism* and every effort was made to import gold and silver that were then considered to be the sinews of war into the country The activities of the East India Company led to the export of these precious metals from the United Kingdom besides severely affecting the woollen and silken industries of that country High protective duties were imposed on Indian goods and Indian calicoes prints and chintzes were totally forbidden to be imported into the United Kingdom at any cost Even as late as 1765 the duties on Indian goods were

45 per cent on cotton and woollen goods

20 per cent on raw silk

25 per cent on cotton wool

The struggle of private merchants to secure trading rights in the East was set at rest by the formation of the United Kingdom Company of Merchants in England to



trade with the East Indies which was recognized by Parliament in 1708. The avowed policy of the East India Company after these warnings was that of encouraging plantations in India. It was a period when the Industrial Revolution was gaining ground in England and the British Merchants were anxious to secure increasing markets for their finished goods. They were feeling the pinch of Indian competition in textile goods even up to the first quarter of the 19th century as is clear from the following tables

Year	Exports of Cotton goods from India (In lakhs of rupees)	Import of cotton goods in India (In lakhs of rupees)
1814-15	84 9	0 45
1819-20	90 3	15 82
1824-25	60 2	52 96
1829-30	1 3	52 16

Year	Cotton piece goods from Britain to India Yards	Cotton piece goods from India to Britain Yards
1814	8 18 208	12 66 608
1821	1 91 48 726	5 34 495
1828	4 28 22 077	4 22 504
1835	5 17 77 277	3 06 086

Even in the beginning of the 19th century English duties on Indian calicoes were as high as 65 per cent *ad valorem*, besides total prohibition of certain classes of goods for use by Englishmen. As against this British goods were taxed on their import into India at only 3½ per cent *ad valorem* while Indian goods had to bear a much higher duty within the country. Consequently India lost not only her foreign markets but her home market as well. She could not compete with the machine made goods from England. It is debatable whether the English mills would have been stopped or delayed owing to Indian competition if it had not been checked but the fact remains that the political power coupled with the technical progress in production and

efficient methods of distribution and financing brought about the ruin of Indian arts and crafts in the first half of the 19th century. Among other causes responsible for the ruin of the indigenous industry were lack of patronage of the courts and the slavish imitation of English manners, ways of living, and forms of dress and clothing of the masters by the Indian people. There was no encouragement to the home producer who was ill organized. The financier had not come on the field and the new technique of production was entirely unknown to the people of the country. It was a fight between a dwarf and a giant. It is probable that if India had a national government, she might have adapted her industry to the new order earlier and thereby saved a great deal of misery and privation suffered by the Indian weavers and others dependent on the trade but it cannot be imagined that in the long run our cottage industry could continue to be a challenge to the machine industry introduced by England and taken up the world over including India herself. The Indian cottage industry has, however continued to exist and in spite of inland and foreign competition of mill made goods, the handloom has occupied a respectable position in the Indian economy. Even at present it supplies about 30 per cent of the requirements of our cloth.

### MILL INDUSTRY

Although the first cotton mill in India was started as early as 1838 near Calcutta the real beginning of the cotton mill industry dates from the year 1851 with the floatation of the Bombay Spinning and Weaving Mill which commenced its work in 1856 under the management of Mr C. M. Davar. In Ahmedabad the first cotton mill was started in 1859 under the management of Mr Ranchodlal Chhotalal. The steady success achieved by these attempts attracted the attention of industrialists and capitalists and consequently

many more mills were started. The industry made remarkable progress during the period of the American Civil War and immediately after. Huge profits were made in cotton trade with the United Kingdom, which were diverted to the establishment of cotton mill industry with indigenous enterprise. It being a virgin field the promoters could float new companies without burning their fingers. At Ahmedabad the finance came from the shroffs out of money lending business. It was a period when railway constructions, particularly of the G I P E I R and other main lines were taken in hand for commercial and strategic purposes. This gave a further fillip to the industry as it facilitated the transport both of raw materials and finished goods within the country.

With the establishment of factories one after another India began to meet her demand of coarser counts of cotton goods through her own mill supply. It led to the import of increasing quantities of mill machinery. Within a few years India began to export cotton piece goods to Russia, China and other countries. This alarming progress of the Indian cotton mill industry gave rise to the spirit of rivalry among Lancashire manufacturers who were enjoying monopolistic rights in the Indian market for the supply of their goods. Now they scented a real danger and being afraid of losing their grip on the Indian market they started agitation to have free entry of their goods into the Indian market. From 1878-9 to 1894 there was absolutely no customs duty on import of cotton piece goods into India. This action of the Secretary of State for India was highly resented by local interests as our industrial needs were diametrically opposed to those of the United Kingdom. While the latter was the workshop of the world, India was struggling to establish her nascent industries. But the Secretary of State for India was adamant and he applied the principles of free trade and

laissez faire to India as they were applied to the United Kingdom, although other countries like Germany, U.S.A., and France were developing their industries by levying protective duties against foreign imports.

The second way in which the Secretary of State for India interfered with the progress of the Indian cotton mill industry was by passing the factory laws in 1881. There is no doubt that it was a useful piece of legislation but it had its origin in the jealousy of Lancashire interests. While it was the voice of Whitehall, the hand was that of Lancashire. The Indian Factories Act of 1881 gave protection to child labour and that of 1891 to women labour. In 1911 a comprehensive Act was passed which protected all kinds of labour.

The last decade of the 19th century was a period of currency crisis and labour troubles due to the bubonic plague that spread in Bombay and other places. Owing to budgetary deficits and the fall in the sterling value of the rupee, it was deemed necessary to impose customs duties. A general rate of duty at 5 per cent was levied on all goods but the Secretary of State for India refused to allow the imposition of any duty on cotton goods. The revenue situation, however, made it impossible to exclude cotton piece-goods from the tariff and in December 1894 an import duty of 5 per cent was levied on cotton piece-goods and yarns accompanied by a countervailing excise duty of 5 per cent on Indian yarns of counts above 20. The excise on yarn did not satisfy Lancashire interests and accordingly in 1886 the import duty on cotton goods was reduced to 3 per cent and an excise duty at the same rate was imposed on all cotton mill-woven cloth, and cotton yarn was imported free of duty. The tariff as revised in 1886 remained substantially unaltered till 1916.

The imposition of cotton excise duty and the preferential treatment shown to Lancashire interests at whose bidding

and command the countervailing excise duty was imposed, gave rise to a good deal of protest in the press and on the platform. The excise duty remained a bone of contention up to 1925 when it was provisionally abolished and finally given up in 1926. In 1916, although the general rate was increased to  $7\frac{1}{2}$  per cent the cotton import duty and excise duty still remained at  $3\frac{1}{2}$  per cent. In the year 1917, largely as a result of the contribution of £100 million towards the war made by India the cotton import duty was also raised to  $7\frac{1}{2}$  per cent and the excise was allowed to remain at  $3\frac{1}{2}$  per cent. For the first time after so many decades the difference in customs and excise duty on cotton was permitted by the British interests under special circumstances created by the war. In 1921 owing to unprecedented deficit the general rate of duty including that on cotton piece goods was raised to 11 per cent but the excise remained at  $3\frac{1}{2}$  per cent. The special exemption in the form of lower duty on cotton mill machinery was withdrawn.

During the early stages and even afterwards the centres of cotton manufacture lay in Bombay presidency, particularly in Bombay city. Outside Bombay city the chief centres of the industry were Ahmedabad and Sholapur. Other important centres that have developed the industry later on are Cawnpore, Madras, Nagpur, Calcutta, Madura, Delhi, Indore, Rampur, Gwalior, etc. The recent tendency for the industry is to migrate into Indian States where it enjoys exemption from income tax and some other taxes, and where labour laws are not stringent as in British India.

The development of the industry up to 1900, although steady, was irregular. By the end of the century there were about 193 mills in the country out of which 82 were in the Bombay city and island. The price of raw cotton increased considerably after 1892 and consequently the profits of the manufacturers were reduced. The Bombay

# PROGRESS OF THE COTTON MILL INDUSTRY OF INDIA 13

yarn industry which was progressing steadily received a rude shock by the industrial development that took place in Japan which was responsible for the loss of the Chinese yarn market. The last decade of the nineteenth century was full of troubles due to the occurrence of wide spread plague a number of famines and currency troubles till 1905 the industry was passing through a period of depression and inactivity. Between 1905 and 1910 there was a short boom followed by a period of steady growth until the outbreak of the last Great War when there were 271 mills in the country with nearly 68 lakhs spindles and one lakh four thousand looms.

## PROGRESS OF THE COTTON MILL INDUSTRY OF INDIA 1880-1914<sup>1</sup>

Year Endg. 30 June	No. of Mills	No. of Spindles	No. of Looms	Hands Employed	Cotton Consumed in Bales of 39 <sup>2</sup> lbs.
1880	56	14 61 590	13 507	44 410	3 07 631
1885	87	21 45 646	16 537	67 186	5 96 749
1890	137	32 74 136	23 412	1 02 721	10 68 462
1895	148	38 09 929	35 338	1 38 669	13 41 714
1900	193	49 45 783	40 124	1 61 189	14 53 352
1901	193	50 06 936	41 180	1 72 883	13 51 740
1902	192	0 36 365	42 584	1 81 031	17 65 038
1903	192	0 44 997	44 032	1 81 399	17 39 340
1904	191	1 18 121	45 337	1 84 779	17 44 766
1905	197	51 3486	50 139	1 95 77	18 79 244
1906	217	79 79 595	59 639	2 08 616	20 23 519
1907	221	73 33 275	58 486	2 05 696	19 80 170
1908	241	51 5 025	67 920	2 11 85	19 91 5 0
1909	259	60 53 231	76 898	2 36 324	21 09 000
1910	263	61 95 171	82 25	2 33 694	19 35 010
1911	263	63 57 460	85 352	2 40 649	19 05 866
1912	268	64 63 929	88 991	2 43 637	20 59 102
1913	272	65 96 863	94 136	2 53 786	20 96 016
1914 <sup>2</sup>	271	67 78 895	104 179	2 60 276	21 43 126

1 Figures taken from the *Indian Year Book*, 1922 p. 63

2 Year ending 31st August

## THE WAR PERIOD 1914 TO 1918

Broadly speaking this period may be regarded as of arrested development mainly owing to the difficulties in obtaining new machinery dye stuffs and other mill stores etc. The outbreak of the last war caused a temporary dislocation. It cut off the supplies of cheap dyes from Germany, and disorganized the export trade. The main feature of the Indian import trade before the war was the growing importance of Germany and when the war broke out imports from Germany Austria and Hungary ceased immediately while trade with Netherlands and Italy was restricted. Difficulty was experienced in importing goods from United Kingdom too. Japan and U S A took advantage of the situation and our trade with these two countries developed considerably. India also produced to her full capacity, but it was not possible to expand the industry to a large extent. Lancashire had been losing ground and the gap was filled up partly by Indian mills and partly by imports principally from Japan.

While the number of mills both in Bombay and in the up country centres as well as the number of spindles remained practically the same the number of looms increased by about 25 per cent—an increase which as in the years preceding the war was accentuated by the fall in the export trade of yarn. The export of yarn after rising from 14.3 crore lbs. in 1914-5 to 17.8 crore lbs. in 1916-7, fell to 13 crore lbs. in 1917-8 and to only 7.3 crore lbs. in 1918-9. This was due to the difficulties of freight the competition of Chinese and Japanese yarn with Indian yarn in China and the increased demand of our mills for Indian yarn. The up country mills continued to increase their production of grey goods, as compared with Bombay. The production of grey goods in Bombay was 4.7 crore yards as against 60.4 crore yards for other centres. On the other

hand, the production of coloured piece goods in Bombay increased to 27·6 crore yards while that of all up country centres remained stationary at 8·8 crore yards

There was, for obvious reasons, a marked fall in the imports both of yarn and piece goods in the war years and for equally obvious reasons a striking increase in the imports of yarn and cloth from Japan. In the first two years of the outbreak of the war the price trend of cloth showed a little change, but a steady rise in 1916 was followed by a rapid advance in 1917. The peak was reached in August 1918. The year 1917 may be said to mark the beginning of the boom period for the cotton industry and specially for the Bombay section of it. In July 1917 the first general increase in wages was allowed by the grant of a war bonus of 10 per cent which was raised to 15 per cent on 1st Jan 1918.

### THE POST-WAR YEARS 1919 TO 1921

The three years immediately following the close of the war were a brief period of abounding prosperity for the mill industry in India in spite of the fact that the year 1919-20 opened under the depressing effects of the failure of the monsoon and the influenza epidemic of the year 1918. Although there was no increase in the number of mills—rather there was a slight reduction—nor any appreciable expansion of looms or spindles, yet the production of yarn and cloth showed a remarkable increase. Since new machinery could not be procured even in the immediate post war period, the increase meant that the mills must have been working to their full capacity.

The relative position of Bombay to up country mills remained as before. Bombay still continued to produce more than half of the total output of yarn and cloth. The production of grey goods in Bombay was 58·6 crore yards



against 70 crore yards in up country mills, the corresponding figures for coloured goods being 33·6 crore yards against 11 crore yards. Exports of yarn and cloth after a spurt in 1919-20 returned to their former level.

The prosperity of the cotton textile industry in these years was due to world factors, in other words it was rather a result of the hectic world-wide boom than to natural development. During this period there was an abnormal rise in the sterling value of the rupee and it did encourage imports, but it did not appreciably affect the Indian exports because the world had to replenish its stocks and India exported mostly raw materials. Another feature worthy of notice during the period is that while the price of cloth increased that of raw cotton fell steadily throughout the period. The widening differences worked greatly to the advantage of the industry.

The imports of both yarn and cloth declined. In 1919-20 they fell to the lowest level touched for a generation.

Another feature was that while imports of cloth and yarn from the United Kingdom were falling they were abruptly rising in the case of Japan as is evident from the following table<sup>1</sup>

1909-10 to 1913-14 Average			1915-16 to 1918-19 Average			1919-20 to 1923-24 Average		
Cotton			Cotton			Cotton		
Piece goods (In thousands of yards)	Yarn (In thou- sands of lbs.)		Piece-goods (In thou- sands of yards)	Yarn (In thou- sands of lbs.)		Piece-goods (In thou- sands of yards)	Yarn (In thou- sands of lbs.)	
U K. 13,15,997	37,050		8,15,197	24,874		5,68,882	25,702	
Japan 2,559	458		81,171	7,424		96,727	16,786	

## EXCHANGE

The Exchange value of the rupee continued to appre-

1. From *Review of Trade* (1940-1)

erate until Feb 11, 1920 when it reached its highest point —2s 11½d. As the exchange rose, orders were freely placed for machinery as well as cloth, but it took several months before these orders could be executed. By the time the deliveries were made the exchange had come down by leaps and bounds and as the payments were made in sterling, it became difficult for the Indian importers to pay for their purchases and take delivery of goods and machinery. The traders lost confidence both in the outside market as well as in the home manufacturers and the purchasing of any further machinery became costly, which adversely affected the cotton mill industry.

### LABOUR

As usual in a period of rising prosperity, wages lagged behind profits. The first substantial rise in wages was granted with effect from Jan 20, 1919, when the 15 per cent war bonus was increased to 35 per cent, and was termed a special allowance on account of the high prices of food stuffs. The allowance was thereafter increased to 55 per cent on Jan 24, 1920 for operatives on fixed wages and for winders, the allowance for piece workers other than winders being raised to 75 per cent. It was again raised to 70 per cent for operatives on fixed pay and winders, and to 80 per cent for other piece-workers.

### COTTON TEXTILE INDUSTRY IN INDIA FROM 1899 TO 1922<sup>1</sup>

The most striking feature which stands out from this brief survey of the cotton mill industry in India from the beginning of the present century to the commencement of the period of the depression of 1923 is its expansion in every direction but more especially in weaving as compared

1 Report of the Tariff Board (1926-7), p. 12

with spinning. The expansion of spinning has been the result of the expansion of weaving rather than the reverse. While spindles increased by 50 per cent in the 22 years surveyed, looms increased by 223 per cent. At the commencement of the period, the Indian mill production of cloth was only a little over one fifth of the net imports and about half the production of the handloom industry. At the end of the period, it was 77 per cent greater than the one and 50 per cent greater than the other. In 1899-1900, Indian mills supplied 9 per cent of Indian requirements of cloth against 64 per cent met by imports, and 27 per cent by the handloom industry. In 1921-22 the percentages were 42, 26 and 32 respectively. This is on the assumption that the exports of Indian piece goods were all of mill manufacture—an assumption which is not entirely warranted owing to the large exports of hand-woven goods from Madras but an allowance for these will only slightly affect the percentages. Other features hardly less important are the loss of the export trade in yarn, the gradually decreasing dominance of Bombay in the home industry, which entirely disappeared in regard to grey goods, and the increasing share of Japan in the import trade. The study of the conditions of the period from 1922 shows the same tendencies.

### BETWEEN 1923 AND 1926

After the boom of 1919-21 the cotton mill industry suffered a severe depression from 1923 to 1926. During this period Bombay mills suffered more than the up-country mills. While in Bombay the number of mills actually working decreased by four, the number of mills in up country increased by 34, besides 20 mills which were idle and 43 new mills which were reported to be in course of erection.

Another feature to note in this period was a swing of the pendulum of prices of cloth and raw materials, namely, while the prices of cotton went up steadily those of cloth declined. It, therefore, further reduced the margin of profit of the industry which was experiencing the onslaughts of depression on other grounds as well. The rate of exchange after rising to 2s. 11½d. fell steadily and reached as low a level as 1s 3½d in April 1922, after which it steadily improved to 1s 6d at which rate it has been pegged since then. The Japanese Yen caused further worries to the cotton mill industry as it fell from Rs 207 per 100 Yen in July 1921 to Rs. 107 per 100 Yen in June 1925. This adversely affected our foreign trade as well as the home market.

## CAUSES OF THE DEPRESSION

These may be studied under two main heads

(a) World factors and (b) local causes

### WORLD FACTORS

Every boom is followed by depression. The boom of 1917-21 was followed by a depression the world over. It was not confined to India alone.

Another factor was the disequilibrium between prices of raw materials and manufactured goods. From 1914 to 1920 the prices of manufactured goods went up much more than of raw materials and foodstuffs. It affected countries like India, China and Australia very adversely. The Indian peasant lost his purchasing power when recession in prices set in. It is apparent if we study the following index numbers of our imports (mostly manufactured goods) and exports (mostly raw materials) on the basis of the declared values of 1913-4:

Year	1913	1920-	1921	1922	1923	1924	1925
	-14	21	-22	-23	-24	-25	-26
Import	100	237	214	169	190	180	158
Export	100	140	127	140	145	154	152

### CAUSES PECULIAR TO INDIA

1. *External Competition*—The greatest competition from outside was from Japan which was due to several causes, the important ones being (i) Depreciation of exchange, (ii) State subsidy or bounty to the Japanese industry, (iii) Sweated labour in Japanese industries (Japan did not ratify the conventions of the International Labour Office up to June 1929), (iv) Better organization of the industry through combines for purchase of raw materials and sale of finished commodities, (v) Better utilization of machinery. Apart from Japan, our imports during the period were principally from the United Kingdom. But the Indian manufacturers were not so afraid of Lancashire as of Japan.

2. *Other Causes*—I Causes affecting the cotton mill industry as a whole (i) Currency changes as explained above (ii) Defects in internal organization of the industry (iii) Over-capitalization—the Tariff Board estimated that the total capital of the industry increased from 20 84 crores in 1917 to 40 98 crores in 1921 which was a very high figure considering the plant machinery and other tangible assets of the industry, (iv) Dividend policy—distribution of fat dividends in the boom period without providing sufficient reserves for renewals and replacements of plant and machinery, (v) The managing agency system with its corruptions, namely secret commissions, nepotism and undesirable practices of obtaining secret profits from the companies they managed. Most of the managing agents had no technical qualifications excepting that they provided finances

to the industry and that too not adequately (vi) Difficulties of obtaining necessary finances in a period of prosperity

*II Causes which specially affected Bombay mills—*(i) Loss of export trade with China in yarn (ii) Competition of Bombay mills with up-country mills The up country mills were new with up-to date machinery and in the centres of consuming areas They were not over capitalized like the old concerns of Bombay The managing agents of up country mills were energetic people who had to manage one or two mills each unlike the Bombay managing agents who had to manage a very large number of mills in each case The Bombay mills did not care to study the up country markets and the tastes of their consumers They were producing goods in the old fashion (iii) High cost of labour in Bombay—the labour in Bombay was mostly imported from the interior and the mills had to pay higher wages (iv) High local taxation including the charges for water (v) High cost of fuel and power in Bombay

As against this Bombay was at an advantage as compared to up country centres due to saving in freight on long stapled cotton imported from outside and railway charges on transportation of finished goods within the country and due to larger size of its mills which tended to economy at times

Frenzied buying of old concerns at fabulous prices frittering away of resources through extensions made with dearly priced post war machinery and excessive payments of dividends has brought the industry in Bombay almost to the brink of ruin during the slump of recent years Many of the mills came to grief through the greedy policy of managing agents charging commissions on the quantity or value of the goods produced Under capitalization also had made the existence of many a mill precarious through

dependence on public and bank loans. Similarly, over-capitalization had sterilized the capacity of the mills to ensure a fair return to the investors.<sup>1</sup> This sums up the position of the industry at the time when the first Tariff Board on Cotton Industry was investigating into its conditions.

## REMEDIES

After a thorough enquiry the Tariff Board made a number of recommendations for improvement of the industry which may be summarized as follows:

### 1 Internal Economies in

- (a) the purchase of raw materials
- (b) fuel and water
- (c) stores
- (d) labour (the main recommendation with regard to labour being)
  - (i) reduction in wages as the prices of other commodities had been reduced,
  - (ii) discouragement of absenteeism
  - (iii) increased output per operative,
  - (iv) fixation of definite hours of rest,
  - (v) proper recruitment of labour,
  - (vi) organization of labour in trade unions on sound lines
  - (vii) standardization of wages
  - (viii) providing housing facilities for labour
  - (ix) labour welfare work
  - (x) technical education
  - (xi) introduction of automatic looms
  - (xii) double shift system

2 While criticizing the Bombay mills for not providing reserves and adequate depreciation for renewals and replace-

1 The Tariff Board Report, 1926-7

ments of machinery, they recommended that depreciation, including any amount which may be in arrears, should invariably be regarded as a first charge on profits. The Board condemned the practice of employing auditors related to the managing agents. They stressed the need of outside and disinterested auditors who should check, besides accounts, mill stocks as well. They opined that at least one member of each firm of managing agents should receive technical training. The practice of investing the surplus funds of mills with firms of shroffs was undesirable and should be discontinued, as also that of lending in funds of one concern to another under the same managing agency. They recommended that capital should be written down to the level which is represented by machinery and other tangible assets of the concern. Bombay should produce goods of higher counts. A large factory for combined printing, bleaching and dyeing should be established in or near Bombay, preferably at Ambernath. A cotton mill-owners' association with sub-committees should be organized to look after the general interests of cotton mills in Bombay and elsewhere. Two trade commissioners—one at Basra and the other at Mombassa—should be appointed to further the sale of cotton textile goods.

As regards the major issue of tariff protection to be given to the industry the recommendations were not unanimous. The majority of the Tariff Board (two Indians) recommended the raising of the import duty on cotton piecegoods from 11 per cent to 15 per cent for a period of three years and the payment for a period of four years of a bounty of one anna per lb. or its equivalent of yarn of 32 counts and higher, based on production of an average of 15 per cent of the total working spindleage in a mill. The president of the Board Mr (now Sir) Frank Noyce, however, recommended an increase of 4 per cent in duty



on cotton yarn and piece goods imported only from Japan as he believed that there was no need of protection against British cloth which was the other agency to export cloth to India

The Government of India did not accept any of the major recommendations of the Tariff Board as regards tariff. Only it agreed to abolish the import duty on the principal mill stores and to consider the question of establishing a mill after consulting the Bombay Government and the mill industry in Bombay and elsewhere. As a result of a strong agitation and propaganda carried on by the Bombay Millowners' Association the Government of India issued a press communique on the 16th of August 1927 announcing the imposition of a specific duty of  $1\frac{1}{2}$  as per lb. on all imported yarn unless its value exceeded Rs 1-14 per lb. in which case the duty would be 5 per cent *ad valorem* up to 31st March 1930. It was further extended up to 31st March 1933 in 1930. It may be added here that from December 1925 the excise duty of  $3\frac{1}{2}$  per cent on cotton piece goods was abolished, at first provisionally, and in 1926 for good.

1928 and 1929 were years of grave trouble to the textile industry in Bombay owing to long strikes and lock outs which were mainly due to introduction of efficiency plans and standardization schemes based on the recommendations of the Tariff Board of 1926-7, which had stressed the necessity of increased efficiency and larger output per operative specially for mills in the city of Bombay. It mentioned that the number of spindles looked after by each operative in India was 180 while in Japan it was 240, in England 540 to 600 and in the U S A 1,120. The number of looms attended to by one weaver in Japan averaged  $2\frac{1}{2}$ , in the United Kingdom 4 and 6, in the U S A 9 while in India it was usually 2.<sup>1</sup>

1 Tariff Board Report 1926-7, pp 136-7

The workers scented danger that a number of them would be thrown out of employment and that efficiency methods were designed to exploit them. They were at this period under the influence of the Girm Kamgar Association which was dominated by the Communists. In the year 1928 the Fawcett Enquiry Committee was appointed to investigate into the causes and remedies of strikes in Bombay. It made a thorough investigation into the causes of strikes and made a number of recommendations to rehabilitate the industry. Unfortunately another strike took place in the year 1929 which led to the appointment of a court of enquiry under the Industrial Disputes Act of 1929. In the same year (1929) the Government appointed Mr G. S. Hardy, Collector of Customs, Calcutta, to investigate into the question of foreign competition and to report whether protection should be granted in the form of *ad valorem* or *specific* duty. Mr Hardy's report favoured *ad valorem* duties. It also pointed out the growing competition from Japan and Italy. In March 1930 the revenue duty on cotton goods was increased from 11 to 15 per cent and an additional duty of 5 per cent of a protective nature was recommended by the Finance Member on goods of non-British origin. After a heated debate in the legislature it was ultimately decided to accept the proposal with the difference that plain grey goods of British origin which competed with Indian production were also liable to the protective duty of 5 per cent. These provisions were embodied in the Cotton Textile (Protection) Act of 1930 according to which the duties levied were as follows

Plain grey goods of British origin .....	15 per cent or
	3½ as per lb whichever is higher
Plain grey goods not of British origin ..	.20 per cent or
	3½ as per lb whichever is higher
Other goods of British origin .. .....	15 per cent

Other goods not of British origin            20 per cent

In the year 1930-1 the cotton industry got a fillip from the Swadeshi movement revived by the Civil Disobedience and Boycott activities. From 1st March 1931 the duties on cotton piece goods manufactured in the United Kingdom were increased to 20 per cent and on those manufactured elsewhere to 25 per cent leaving the minimum specific duty of  $3\frac{1}{2}$  as per lb unchanged. By another Finance Act a general surcharge of 25 per cent was imposed from September 30 1931 — thus raising the duty on goods manufactured in the United Kingdom to 25 per cent *ad valorem* at which rate it continued until it was reduced in August 1936 on the recommendation of the Special Tariff Board appointed on the subject. The minimum specific duty on plain grey goods whether manufactured in the United Kingdom or elsewhere was raised to  $4\frac{3}{8}$  as per lb and the duty on other goods if not manufactured in the United Kingdom to  $31\frac{1}{2}$  per cent. At the same time the duty on cotton yarn was increased to  $6\frac{1}{2}$  per cent *ad valorem* or  $1\frac{7}{8}$  as per lb whichever was higher. By these two Finance Acts of 1931 the duty on artificial silk was raised to 10 per cent and again to  $18\frac{1}{2}$  per cent while the duty on artificial silk piece goods and artificial manufactures was raised to 50 per cent and  $34\frac{3}{8}$  per cent respectively in September 1931 after being subjected to a flat rate of 20 per cent for the previous 7 months.

The industry again sought protection against Japan at the end of 1931 when Japan went off the gold standard. In March 1930 when protection was granted to the Indian cotton industry against Japan she was on the gold standard. She suffered as it coincided with world economic depression. Her position became worse after 21st September 1931 when the United Kingdom and with her many other countries went off the gold standard. On 11th December

1931 Japan also put an embargo on the export of gold when huge quantities of gold had already left that country

On 9th April 1932 the Government of India referred to the Tariff Board the question of further protection to be given to the cotton textile industry, against goods of non British origin primarily, as they were imported at prices that made the protection of 1930 ineffective The enquiry was to ascertain whether there was a case for increasing the existing duties The Tariff Board of 1932 made a comprehensive enquiry into the extent of Japanese competition as the Bombay Millowners' Association and other bodies confined their representation to the need of protection against Japan owing to the depreciation of the Japanese currency and exchange The other causes to depress the prices of imported cotton piece goods were improvements in the methods of manufacture specially in Japan and the consequent reduction in costs 'The higher cost of power per unit of output in Indian mills as compared with Japan is due partly to the higher price of electricity but mainly to the lower efficiency in the Indian mills The cost of power is generally less than 8 per cent of the manufacturing charges The greatest disability of the Indian industry as compared with Japan is in respect of labour The labour cost per pound of yarn of average count 16S in a Bombay mill exceeds the cost in a Japanese mill by over 60 per cent and the labour cost per loom per day on plain grey cloth in a Bombay mill is over 3 times the cost in a Japanese mill'<sup>1</sup> The world wide economic depression had reduced the purchasing power of India peasants and depressed the prices in general, more particularly of raw materials and agricultural commodities Severe competition between rival exporting

1 Report of the Tariff Board on Cotton Textile Industry (1932) pp. 111 2

countries due to economic depression led to uneconomic level of prices. Fall in the price of American cotton since 1930 had further reduced the prices of foreign cloth.

The Board observed 'Of all forms of what is generally and somewhat loosely called dumping the most insidious in its effects on the home industry is sporadic dumping'. The dumping which arises from a rapidly depreciating exchange is precisely of this kind and threatens the home industry with the most serious menace. The total imports of cotton piece goods from Japan in June 1932 showed an increase of 39 per cent over those in May of the same year and 85 per cent over those in January 1931. The corresponding percentages for other countries were 14 and 28 respectively.

#### ADDITIONAL PROTECTION

The extent of additional protection must be equal to the combined effects of lower exchange and lower price of American cotton. The fall in the price of raw cotton since March 1930 was estimated at about 32 per cent and the fall in the rupee yen exchange since March 1930 was estimated at about 22 per cent. The Board arrived at 53 per cent *ad valorem* duty on Japanese goods. As a round figure they recommended a duty of 50 per cent on Japanese goods for a period of 10 years as in the opinion of the Board nothing less would afford adequate opportunities for the reorganization and consolidation of the home industry. Duties of one anna per lb on yarn and 15 per cent on starch were also recommended. As regards other improvements the Board observed that the proportion of long stapled cotton in the total Indian crop had risen from 6 per cent in 1925-6 to 18 per cent in 1931-2. The Bombay millowners were complimented for having substantially written down their

capital which was strongly recommended by the Tariff Board of 1926 7

A scheme for the amalgamation of 34 mills in Bombay in 1929 30 was sponsored by Sir N Wadia and other industrial magnates to give effect to the recommendations of the first Tariff Board. The merger aimed at standardization and specialization of production for the avoidance of duplication of work and elimination of uneconomic machinery and envisaged a joint and central Board to deal with purchases of cotton, machinery and mill stores sale of waste, yarn and cloth etc. It was designed on Japanese lines—to purchase through combines and to sell through common selling agencies. Each mill was to be valued and taken over by the merger corporation in return for fully paid shares in the corporation. The scheme was abandoned mostly on financial grounds. Some of the mills did not agree to the valuation placed on their machinery and other block assets, and in view of the funded debts they refused to hand over the assets at the prices fixed by the experts. The merger would have immediately saved six or seven mills which collapsed soon after. But it was a signal to the other mills which reorganized and rehabilitated the industry between 1930 and 1940 on the lines of the recommendations of the Tariff Board. The output of medium and fine counts was increased and greater quantities of bleached, dyed and fancy goods were produced, and a number of mills took to printing.

In August 1932 the Government of India raised the import duty on goods not of British manufactures to 50 per cent *ad valorem* and the minimum specific duty on plain grey goods to 5½ as from 4¾ as. per lb. In the middle of 1933 the Government had to increase the rate on non British goods to 6½ as per lb or 75 per cent *ad valorem*. This undoubtedly represented a piecemeal action on the part of the Indian

Government Under the Indo Japanese Trade Convention of 1904 no specific action could be taken against Japan. The Government of India, therefore, gave notice to Japan for the termination of the Indo Japanese Trade Convention of 1904. Japan threatened to retaliate against India by boycotting the purchase of Indian cotton, she being our best customer, purchasing more than 50 per cent of our export of cotton. Meanwhile, negotiations had commenced between the two countries for the conclusion of a fresh trade agreement which was concluded on the 7th January 1934 and came into operation the very next day. It was based on the reciprocal quota basis and its object was to protect the Indian textile industry from the onslaughts of Japanese competition by putting in a quantitative limitation to the imports of Japanese piece goods into this country and at the same time ensuring a secured market for Indian raw cotton in Japan. The agreement was to remain in force till 31st March 1937.

The vital part of the agreement is the linking up of Indian cotton purchases by Japan with imports of Japanese cotton piece goods. Japan was, however, permitted to export 12.5 crore yards of cotton piece goods to India without any liability to purchase Indian cotton. In return for purchases of 10 lakh bales of Indian cotton, permission was given to import 32.5 crore yards of piece goods annually. If less than 10 lakh bales were purchased in any cotton year, the yardage of imports permitted was to fall by 20 lakh for every 10 thousand bales below 10 lakh bales. Purchases above 10 lakh bales permitted a proportional increase in imports of piece-goods to a maximum of 40 crore yards. The yardage has to be divided up into proportions of the various standard types of cloth which could be varied slightly so long as any increase in one produced a

corresponding decrease in another From January 8, 1934 Japan called off the boycott of Indian cotton, and the Indian duty on Japanese piece goods was reduced from 75 to 50 per cent, with a corresponding reduction of the specific rate which affected the coarsest goods The new treaty lasted till March 31, 1937 and covered Burma, whether or not it was separated from India before that date

The following table shows Japanese purchases of Indian cotton and Japanese exports of piece goods to India for six years :

Year ending March 31	Exports of Indian Cotton to Japan (figures in thousands of bales of 400 lbs) each	Imports of cotton piece goods into In- dia from Japan (figs. in lakhs of yards)
1927-28	1,235	3930
1928-29	1,610	3570
1929-30	1,640	5620
1930-31	1,686	3210
1931-32	1,080	3400
1932-33	1,085	5790
1933-34 (8 months)	164	2430

The greatest gain was reaped by the Indian cotton growers due to Japanese purchases being in larger amounts than fixed by the agreement Japan gained substantially It secured the most favoured nation treatment. Reduction of duty from 75 to 50 per cent was another gain to her

The agreement has been subjected to a great deal of criticism from unofficial quarters in India It is asserted that the quota system could not be worked well and it was evaded at many points The Japanese took advantage of the many loop holes in the language and wording of the agreement Fents (cloth pieces) were not included in the quota and therefore they were imported in large quantities Similar was the case with artificial silk goods. Being



excluded from the agreement they were also imported to India in large quantities. Japan further flooded the Indian market with manufactured goods like shirts, dresses, skirts as they were outside the quota. Cotton goods were sent to India through Afghanistan, Nepal and other countries. The linear yard basis was evaded and cloth of greater width was exported to India.

Japan also increased its exports in miscellaneous goods like toys, stationary articles, cycles umbrellas, etc. in huge quantities, thus adversely affecting the small nascent industries of India. The balance of trade was in Japan's favour. Her increased purchases of Indian cotton were not due to any favour to India, nor in compliance with the clauses of the Protocol but because she could not have cotton so cheap elsewhere. In 1934-5 Japan's purchase of Indian cotton increased from 15 lakh bales during the previous ten years to 20.1 lakh bales.

### INDO-JAPANESE TRADE AGREEMENT OF 1937

In 1936 negotiations for a fresh agreement started as the previous one was due to expire on 31st March 1937. This time the non-officials unanimously demanded (a) a reduction of 5 crores yards in the quota of Japanese piece goods imported into India, (b) the quantity of Indian cotton to be purchased by Japan to remain the same, (c) a quota for fents which was not to exceed  $2\frac{1}{2}$  per cent of the quota for general piece goods, (d) the artificial silk goods to be included in the general piece goods, (e) the ready-made cotton cloth garments to be included in the quota, (f) the quota to be a square yard one and not only a linear yard one, (g) Japanese yarn up to 50S to be included in the quota, and (h) miscellaneous goods to be included in the quota, or to pay a high specific import duty.

The new agreement was signed and came into operation

from 1st April 1937 for a period of three years.

In this agreement the *status quo* was maintained and Japan was accorded the most favoured nation treatment. Japanese piece goods had been reduced from 32.5 crore yards to 28.3 crore yards against the Japanese purchase of 10 lakh bales of Indian cotton. This reduction was due to the separation of Burma. The maximum limit of imports of cotton piece goods on Japan's purchasing 15 lakh bales of Indian cotton was reduced from 40 to 35.8 crore yards. Further the Japanese exports were to be in the following classified order:

(i) Plain greys 40 per cent (ii) bordered greys 13 per cent (iii) bleached (white) goods 10 per cent (iv) coloured printed goods 20 per cent (v) coloured dyed or woven goods 17 per cent. The basic quota did not include fents though Japan had agreed to limit her exports of fents to 89.5 lakh yards annually. The duty on fents not to exceed 35 per cent *ad valorem*.

### CRITICISM

In essentials the agreement was the same as the previous one unaffected by the recommendations of the non-officials. Indian imports of cotton piece goods had been reduced by 4.2 crore yards only though Burma absorbed 7 crore yards thus increasing Indian quantities by 2.8 crore yards. Japan's off take of Indian cotton had not been reduced because she needed Indian cotton in huge quantities. There was no valid reason for not including fents in the quota and fixing up a lower duty of 35 per cent *ad valorem* on them though the limitation of their quantity gave a little satisfaction to Indian industrialists. The exclusion of artificial silk goods from the agreement (by the Finance Act of 1937 duty on artificial silk goods was increased by one anna per square yard) was resented.

by Indian interests. Nothing had been provided in the Agreement regarding Japanese exports to India through neighbouring countries like Afghanistan, Nepal, etc.

It was essential to ensure Japanese purchase of Indian cotton in view of China's increasing production as India had, nowhere else except in Japan, a secured market for its cotton, in spite of Lancashire promising to use increased quantities of Indian cotton.

The new agreement was an improvement over the old one in some respects, yet full use of India's bargaining power had not been made. It would have been better if the Indian Government had entered into a comprehensive trade agreement including everything instead of a barter agreement with regard to cotton goods only.

### LEES-MODY PACT

Almost simultaneously with the conclusion of the Indo-Japanese Trade Agreement, another Agreement was entered into between the representatives of the Bombay Millowners' Association and the British cotton textile industry. It was called the Lees-Mody Pact. The terms of the agreement were

1 India was justified in demanding protection against imports from the United Kingdom but owing to lower cost and other factors there was need of greater protection from other countries, particularly from Japan than from the United Kingdom.

2 That when the revenue position of the Indian Government improved and the need of imposing surcharge was removed the Indian interests would not press the Government to continue the surcharge imposed in October 1931.

3 Regarding imports of yarn from the United Kingdom the Indian side agreed to a duty of 5 per cent *ad valorem* with a minimum specific duty of  $1\frac{1}{2}$  as per lb.

4 Regarding artificial silk piece goods the Indian side agreed that on British goods the duty might be 30 per cent *ad valorem* or  $2\frac{1}{2}$  as per sq yard for 100 per cent artificial silk fabrics and 30 per cent or 2 as per sq yard for mixture fabrics of artificial silk and cotton

5 It was agreed that any advantage enjoyed by British goods in the overseas markets should be extended to Indian goods (piece goods and yarn) as well This applied for the future as well and India should also be allowed quota in markets where Great Britain participated In overseas markets the Manchester Chamber should use its good offices to bring about contact between Indian manufacturers and the British houses which were already established in those markets

The British Textile Mission undertook to popularize Indian cotton in Great Britain and explore other avenues of co operation in this regard

The undertaking was limited in its duration to the period ending on December 31 1935

On a critical review of the Lees Mody Pact it may be remarked firstly that there was no occasion for such an agreement at a time when negotiations were proceeding between the Japanese and Indian Governments to bring about a revival of their trade Lest their interests should suffer the British representatives pressed hard their case A large section of the people did not welcome the Agreement, partly because it was untimely and partly because all interests were not equally safe guarded Moreover, the terms of the Agreement clearly show that while Indian interests were preached to make definite sacrifices and made promises for reduction in duty on British goods, the British interests only gave hopes of goodwill to popularize Indian cotton in British mills and Indian cotton piece goods in the Empire countries. The agreement, therefore, seemed

to be rather one-sided. Further, the interests of the consumers and of the handloom weavers as well as cotton growers were not properly looked after while making the Agreement because they were not well represented.

In the light of the two Agreements the Government of India introduced the Indian Tariff (Textile Protection) Amendment Bill which became law in March 1934. Although protection was intended to be given to the textile industry over a period of five years the duty on protected goods was to remain for two years only under the agreement of Lees-Mody Pact which was to remain up to December 1935

### INDO-BRITISH TRADE AGREEMENT OF 1935

On representation of the Lancashire merchants to the President of the Board of Trade, the Secretary of State for India moved the Government of India to conclude a fresh trade agreement. The Lancashire merchants wanted a reduction in duty from 25 to 11 per cent only. The Government of India concluded the Indo British Trade Agreement on the 9th January 1935 which was held to be a sequel to the Ottawa Agreement without consulting either the Indian commercial community or the public. The main feature of the Agreement was that 'while protection to Indian industry against imports of whatever origin may be necessary in the interests of the economic well being of India, the condition of the industry in India, United Kingdom and outside were such that India required higher protection against goods of other countries than those from the United Kingdom'. The Government of India further undertook that the measure of protection would be only equal to the difference in the prices of imported articles and fair selling prices in India and that whenever possible, keeping in view the above provisions, lower rates would be

charged on goods of British origin. The Government also promised to give a hearing to British manufacturers when the question of a substantial protection to the Indian cotton industry was being examined by the Tariff Board.

There was a good deal of criticism of this agreement and it was regarded as a negation of the Fiscal Autonomy Convention. The Indian Legislative Assembly turned down this agreement in March 1935, but the Government of India paid no heed to the verdict of the Assembly and stuck to it.

A special Tariff Board was constituted by a resolution of the Assembly dated 10th Sept 1935, on the cotton textile industry to recommend duties on British manufactured textile goods on the basis of difference in the price of imported goods and the fair selling prices of Indian goods in India. The textile industry in India as well as in the United Kingdom was to be given full liberty for placing their respective cases before the Tariff Board. The Board recommended 20 per cent duty on plain grey goods as well as bordered grey goods and 5 per cent on yarn. On other goods the old duty of 25 per cent was to remain in force. The Government accepted their recommendations without consulting the Indian legislature and the reduction of duty was brought into force from the 20th of June 1936.

On 30th March 1936 the Indian Legislative Assembly turned down by a resolution the Ottawa Agreement and its sequel, the Indo British Trade Agreement. The Assembly also resolved that the Government of India should conclude bi-lateral trade agreements with all those countries with which India had a chance to expand her trade. The Government gave notice to His Majesty's Government on 13th May 1936 for termination of the Ottawa Agreement which was due to expire after six months, i.e. on 13th Nov 1936.

During the course of discussions and negotiations the existing agreement was allowed to continue and it could be terminated after three months' notice on either side. Negotiations for a new agreement continued for nearly three years. It was signed on 20th March 1939. The new agreement provided for a reduction of the basic rates of duties on U. K. cotton piece-goods as under.

Printed goods	17½ per cent <i>ad valorem</i>
Grey Goods	15 per cent <i>ad valorem</i> or 2 annas and 7½ pies per lb whichever is higher
Others	15 Per cent <i>ad valorem</i>

The basic rates were subject to a reduction of 2½ per cent *ad valorem* if imports from the U. K. in any year were less than 35 crore yards and to an increase to the same extent in the event of the U. K. imports exceeding 50 crore yards.

The new rates came into force from 1st April 1939. In September of the same year war broke out and since then the imports did not exceed 35 crore yards consequently from 17th April 1940 a reduction of 2½ per cent in duty on British piece-goods was effected.

The position of the Indian tariff on textile goods in 1939 was as follows

#### YARN

- (1) of counts above 50S
 

British .. .	5 per cent <i>ad valorem</i>
Non British .....	6½ per cent <i>ad valorem</i>
- (2) of counts 50S and below
 

British ... ..	5 per cent <i>ad valorem</i> or 1½ as per lb. whichever is higher
Non-British.....	6½ per cent <i>ad valorem</i> or 1½ as per lb whichever is higher

# COTTON PIECE-GOODS

Grey piece-goods (excluding bordered grey, chaddars, dhoties, saris and screens) .

British.....12½ per cent *ad valorem* or 2½  
as. per lb. whichever is higher

Non-British. ....50 per cent *ad valorem* or 5½  
as. per lb. whichever is higher

# PRINTED PIECE-GOODS AND PRINTED FABRICS

Including all types .

British..... 15 per cent *ad valorem*

Non-British.... 50 per cent *ad valorem*

# OTHERS

( not coming in any of the above categories )

British.....12½ per cent *ad valorem*

Non-British... 50 per cent *ad valorem*

On a critical examination of the Table on p. 41 we observe that the per capita consumption of cloth declined during and for two years after the first World War. It reached as low as 9.34 yards in 1919-20. At present our consumption of cloth, as calculated in the next chapter, is about 7 yards only. The end of War is not yet in sight. It means our miseries are to multiply unless effective means are employed to step up production. Another thing to note from the Table is that during 25 years ( 1914 to 1939 ) our standard of consumption showed practically no improvement. Lastly, our home production—both from the mill and hand-loom but more from the mill, has increased while imports have gone down. The increased quantity available for consumption is absorbed by the increase in population.

# DURING THE WAR

The cotton mill industry suffered serious losses in the post-war economic depression. Several mills were closed in Bombay and many others reduced their share capitals. Only a few could declare dividends to all classes of share-holders.



# PROGRESS OF COTTON MILL INDUSTRY OF INDIA 1915-1942

(Last four columns are in thousands)

Year ending 31st Aug	No. of Mills	No. of Spindles	No. of Looms	Hands Employed	Cotton Consumed in Sales of 392 lbs
1915	272	68 49	1 08	2 65	21 03
1916	266	68 40	1 10	2 74	21 98
1917	263	67 39	1 15	2 77	21 98
1918	262	66 54	1 16	2 82	20 86
1919	268	66 90	1 18	2 93	20 44
1920	253	67 64	1 19	3 11	19 52
1921	257	68 71	1 24	3 32	21 20
1922	298	73 31	1 35	3 44	22 04
1923	333	79 28	1 45	3 47	21 52
1924	336	83 13	1 51	3 57	19 18
1925	337	85 11	1 54	3 68	20 26
1926	334	87 14	1 59	3 74	21 13
1927	336	87 03	1 62	3 85	24 17
1928	335	87 04	1 67	3 61	20 10
1929	344	89 07	1 75	3 47	21 61
1930	348	91 25	1 79	3 84	20 74
1931	339	93 12	1 82	3 95	26 33
1932	339	95 06	1 86	4 03	29 11
1933	344	95 81	1 89	4 00	28 37
1934	352	96 13	1 94	3 85	27 04
1935	365	96 85	1 99	4 15	31 23
1936	372	98 75	2 00	4 18	31 00
1937	370	97 31	1 98	4 17	31 47
1938	380	100 20	2 00	4 38	36 33
1939	389	100 59	2 01	4 41	38 12
1940	388	100 58	2 00	4 30	36 80
1941	390	99 61	1 99	4 60	42 51
1942	396	100 26	2 00	4 80	47 41

Excludes Burma from 1937

**CONSUMPTION OF COTTON PIECE-GOODS  
AND  
HAND-LOOM PRODUCTS IN INDIA<sup>1</sup>**

Year	Net Imports Yards in Crores (Actual)	Net Available Mill Production Yards in Crores (Actual)	Hand loom Production Yards in Crores (Estimated)	Net Available for Consumption Yards in Crores Total	Per Capita Consumption (Yards)
1913-14	313	108	107	528	16.50
1914-15	241	107	118	466	14.56
1915-16	211	133	105	449	14.03
1916-17	183	132	82	397	12.41
1917-18	147	142	81	370	11.56
1918-19	101	130	105	336	10.50
1919-20	90	144	56	299	9.34
1920-21	145	143	115	403	12.59
1921-22	102	157	119	378	11.81
1922-23	152	156	134	452	13.40
1923-24	142	154	101	397	12.03
1924-25	177	179	126	482	14.61
1925-26	153	179	118	450	13.18
1926-27	176	206	136	518	15.15
1927-28	194	219	130	543	16.60
1928-29	191	174	108	473	13.52
1929-30	190	229	138	557	15.97
1930-31	87	246	136	469	13.49
1931-32	76	288	139	503	14.28
1932-33	120	311	142	573	16.70
1933-34	77	289	124	490	14.17
1934-35	94	334	124	552	15.60
1935-36	94	350	137	581	16.57
1936-37	75	347	128	550	15.50
1937-38	58	384	149	591	16.42
1938-39	63	409	192	664	17.94
1939-40	56	379	182	617	16.67
1940-41	40	388	165	593	16.03

<sup>1</sup> Taken from *Review of the Trade of India*, 1936-7, p. 43 and 1940-1, p. 107

The trade unions resisted reductions in wages and the employment of efficiency measures at times leading to strikes and lock outs. Except for a short boom in 1937-8 the industry passed through a gloomy period up to the outbreak of the second World War in 1939.

The first reaction of the War was that the market became steady in its tone and temper. The manufacturers as well as dealers remembered the abnormal gains of the first World War which gave buoyancy to the markets. The anxiety to sell away the stock grew less and less and dealers showed a tendency to hoard the goods. The prices began to rise steadily but up to the middle of 1941 the position did not grow serious on account of Japanese imports. With the freezing of Japanese assets in August 1941 imports of cloth from that country stopped entirely and in 1942 the position grew from bad to worse so much so that by the end of the year the prices were about 4 times of what they were in August 1939. The Government grew anxious but could not arrest the rise in prices up to the middle of 1943. The following table indicates the rise in whole sale prices of the typical varieties of cloth up to May 1943<sup>1</sup>.

Kind of cloth	Aug 18 1939			March 13 1942			May 20 1943		
per lb	Rs	As	Ps	Rs	As	Ps	Rs	As	Ps
Long Cloth (Standard quality)	0	8	6	1	2	10	2	10	0
Domestics	0	7	0	1	2	2	2	8	0
Dhoties 32 x 9 yds of 1 $\frac{3}{4}$ lbs	0	9	6	1	2	0	2	14	0
Yarn No 10 $\frac{1}{2}$ S	0	4	5	0	9	7	1	11	6
Yarn No 20S	0	6	1	0	15	0	2	13	0

The causes of the phenomenal rise are not far to seek. There was a general rise in prices and in sympathy

<sup>1</sup> Taken from *The Eastern Economist* Oct. '42 1943

the prices of cloth and yarn must, as a rule, conform to them. While imports from the United Kingdom and Japan, our main suppliers, stopped completely in 1942, exports grew to unprecedented height. Countries that used to depend on the United Kingdom, the U. S. A., or Japan turned to India for their supplies. Between 1st September 1939 and 30th November 1942 India exported 192½ crore yards of cloth to different countries as is shown in the following statement<sup>1</sup>.

Names of Countries	Quantities Exported (in yards)
United Kingdom	34,176,553
Palestine	77,659,559
Cyprus	4,042,418
Iraq	99,907,734
Aden and Dependencies	51,097,341
Arabia	50,026,366
Bahrein Islands	12,352,366
Iran	63,782,447
Ceylon	109,310,615
Burma	264,416,987
Straits Settlements	102,937,707
Federated Malay States	19,227,835
Egypt	91,919,564
Nigeria	112,244,299
Union of South Africa	74,941,152
Italian East Africa	24,030,489
Anglo Egyptian Sudan	21,104,060
Rhodesia	21,181,057
Mauritius and Dependencies	18,506,500
Portuguese East Africa	14,828,856
Tanganyika Territory	78,796,377
Kenya Colony and Zanzibar & Pemba	158,121,376
United States of America	3,379,926
British West Indies	19,99,869
Australia	186,954,521
Other Countries	176,883,065
Total	1,925,429,046

1 From *Ind an Textile Journal*, Sept 1943

This covers a wide range of countries and includes every continent. One can understand exports of cloth to Asiatic or African countries or to our neighbour Australia but strangely enough we have exported 341,76,553 yards of cloth to the United Kingdom and 33,79,926 yards to the U S A the former being the second birth place of cotton industry in the world and the latter the most important cotton manufacturing country. Not that we can retain these markets after the cessation of hostilities. It is all due to war exigencies.

Another important cause of the disequilibrium is the purchases on military account. The civil needs are deferred and up to 1942 the purchases on military account were on the up grade. It was only in 1943 when the situation became very critical that the Government slackened its pace of military purchases in India. The profit instinct of the dealer led to speculation and hoarding and the nervousness of the consumer was responsible at times for unnecessary and untimely purchases. Inflation contributed no less than any other single factor. We may thus conclude that while home production could not expand beyond a certain limit due to the difficulties of importing machinery, dyes, stores and spare parts and our imports were completely stopped owing to war in the Mediterranean and the Pacific the demand swung up to dizzy heights on account of civil and military requirements in home and foreign markets. The result was scarcity coupled with high prices. The following statement shows the position clearly.

Year	Production	Net Imports+Government Net Exports—Purchases (In Crores of Yards)	Balance left for Civilian Needs
1938-9	426.9	+36.5 —	463.4
1939-40	401.3	+22 30	393.3

1940-1	427.0	-10.8	60	356.2
1941-2	449.4	-80.5	110	258.9
1942-3	410.9	-115	65	230.9
(estimate)				

The hand loom production decreased from 19<sup>7</sup> crore yards in 1938-9 to 50 crore yards in 1942-3 and even out of it a part was taken by the Defence Department. Thus on the whole a quantity of about 270 crore yards (230+40 from hand looms) was left for civilian consumption compared to the peace time consumption of nearly 664 crore yards in 1938-9. The per capita consumption of cloth in India was only 17.94 yards in 1938-9 as against the world average of 30 yards. Even this has gone down to less than 7 yards per head per year. This is a sorry state of affairs and hardly needs any comment. Our people were already half naked. Now they have been deprived even of this little supply by dumping paper money in circulation. The hand loom could supplement mill production but imports of yarn had fallen from 4.1 crore lbs in 1939-40 to 48 lakh lbs in 1941-2 while exports of Indian yarn rose during the same period from 5.65 crore lbs to 5.78 crore lbs. The result is that a large number of hand loom weavers had to seek other employments. We wonder if it could be possible to introduce a few lakhs of charkhas if spinning machinery cannot be imported from outside during war time. It will step up production of hand woven cloth.

### GOVERNMENT MEASURES

These may be considered under two heads—Government purchases for military and civil needs and control over prices and stocks.

1 *Government Purchases*—For about 18 months after commencement of War the Government felt no difficulty in procuring cloth for their military needs. Indian mills

particularly in Bombay, had large stocks on hand. The old 'Tender System' was followed with much success. But in 1941 when foreign supplies of cloth and yarn dwindled to nothing the Government had to revise its policy, because it was found that invitations to submit tenders got little response. After April 1941, the Government had to negotiate and conclude contracts with individual mills. This too did not prove very successful. At this time Sir H. P. Mody, the Bombay millionaire, happened to be the Supply Member. He convened a conference of mill owners at Bombay on the 8th and 9th of September 1941 to enlist the support and sympathy of the industry in this hour of trial. After a full and frank discussion it was decided to appoint a panel consisting of members from different centres of the textile industry and other interests to advise and negotiate with the Government on behalf of the industry. The cotton textile section of the Supply Department was transferred to Bombay to be in better contact with the industry.

*The Cotton Textile Advisory Panel*—The first meeting of the Panel was held in Bombay on October 13, 1941, to get supplies. At the next meeting which was held in Delhi on the 5th and 6th of December 1941, a comprehensive plan for the supplies of cloth during the war was drawn up with the approval of the Government and the Industry. A special yarn committee and a standing sub-committee to determine prices were set up by the Panel. They have rendered useful service in procuring supplies and determining prices.

To achieve better and speedy results, the staff of the Cotton Textile Directorate was greatly augmented. The Department is divided into a number of sections with suitable machinery to co-ordinate them. The Supply Member is at the head of the organization with a Secretary, Director-General, Deputy Director-General and Assistant Director-General to help him.

The two important functions of this organization are planning and purchasing. Under planning there are Administrative, Statistical, Planning, Mill Stores Machinery and Chemicals and Technical sections. The whole machinery is very elaborate and costly and is functioning fairly well.

### CIVILIAN SUPPLIES

The question of high prices of cloth came up for discussion for the first time before the Third Price Control Conference, which met on October 16 and 17, 1941. But the Government did not take the question very seriously and after a heated debate on 'Standard Cloth' and Yarn control, the matter was dropped. But in 1942 the situation grew worse both with regard to supplies as well as prices. Credit goes to Mr N. R. Sarkar for introducing a scheme of 'Standard' cloth. For the first time an order for 1.5 crore yards of cloth was placed by the Government of India in January 1943 through the Cotton Textile Directorate. Further orders were placed as under:

February to April 1943	For 2.5 Crore Yards
May to July 1943	, 15 , "
August 1943 to January 1944	, 100 , "

This cloth was purchased at a fixed price changeable only once a quarter. Varieties were few in the beginning though subsequently their number reached 102.

### DISTRIBUTION OF STANDARD CLOTH

The Central Government purchases this cloth from mills and supplies it to the Provincial Governments which sell it to the public through selected retailers who undertake to sell nothing except the standard cloth. The Government of India charges  $1\frac{3}{4}$  per cent for its services including freight, while the Provincial Governments are allowed



to charge  $1\frac{1}{2}$  per cent for functioning as wholesalers, and the final retailer gets 3 per cent. Thus the consumer gets cloth at ex-mill price plus  $6\frac{1}{4}$  per cent. It means a great saving in marketing charges. Another advantage to the consumer has been a general reduction in prices of all varieties of cloth as a reaction of the prices of standard cloth on other qualities. At one time it seemed that a right solution had been found but after about a year's experience it can be said that the scheme has not been successful. Firstly, attention is not paid to the study of the consumers' demands in different localities and goods are supplied to the retailer without regard to the special requirements and tastes of the people in different provinces. The result is that large stocks are lying on hand unsold. Secondly, the system of price fixation is not correct. Cloth is supplied in three qualities—14S, 20S, and 40S. In all cases prices are fixed by weight, with the result that 40S cloth is priced lower than what it ought to be according to principles of costing. This cloth is sold in no time while the rough varieties remain unsold. The scheme has not been very popular, and some of the Provincial governments at any rate are cancelling their orders.

## 2 *General Control Over Prices And Stocks*

Through trial and error the Government was steadily improving its machinery and trying to have a grip over the situation. On the 1st of June 1943 Mr Hydar, Secretary, Industries and Civil Supplies Department announced the Government scheme which, besides providing for standard cloth, included a complete control over prices of cloth and yarn. It also intended to regulate and maximize production and asked the mills to specify ceiling prices, ex mill and retail, on every cloth. The returns submitted on August 15, 1943 for stocks held on July 31, 1943 disclosed the existence of about 270 crore yards of cloth and 21.5 crore lbs of

yarn This stock taking and the firm tone of the Government of India Notification of 17th June 1943 announcing the provisions of the Cotton Cloth and Yarn (Control) Order eased the situation slightly The Order provided that all cloth and yarn manufactured before 1st August 1943 was not to remain in full bales after 31st August 1943 All such cloth and yarn was to be disposed of by retailers by the 31st of October 1943 at the latest On representation from merchants this limit was later extended to 31st December 1943 The unsold stocks were to be purchased by the Government at a discount ranging between 5 and 7½ per cent on specified ex mill prices To prevent hoarding all cloth and yarn produced by mills after 31st July 1943 was to be marked by the mills with the dates of production and packing and to be sold to the retailers within 6 months of its production Further, the manufacturer was not allowed to hold stocks of cloth which exceeded his total production of the preceding three months 10371

Besides the anti hoarding provisions the Government introduced other provisions with the assistance of the industry A Textile Control Board consisting of 25 members representing all interests was appointed It set up the following Statutory Committees

- (a) Industries Committee of 15 members exclusively of mill owners dealing with the problems of rationalization standardization and price fixation
- (b) Distributing Committee
- (c) Cotton Movements Committee
- (d) Cotton Committee dealing with the problems of marketing and price of cotton
- (e) Export Committee
- (f) Hand loom Committee
- (g) Transport Committee

The Government appointed a Textile Commissioner and

an Additional Textile Commissioner to administer the rules  
**CEILING PRICES**

In August 1943 the Textile Control Board fixed the ex mill and retail prices of 12 varieties of standard cloth and 4 kinds of yarn in the hope that other prices would be fixed on the basis of these prices. But there was little response from the trade and therefore the Board was obliged in October 1943 to fix prices of all varieties of cloth and yarn produced in India and mark ex mill and retail ceiling prices on all cloth produced after 1st December 1943. The unmarked cloth was to be disposed of by 31st December 1943 except certain varieties for which extension was allowed up to 30th June 1944. Such frequent extensions are a source of encouragement to dealers to withhold stocks in the hope of obtaining higher prices which leads to black marketing.

Besides these measures the Government has fixed the maximum prices of cotton and stores. But nothing has been done so far to reduce the labour cost. Transport of cloth can only be under a license from the Textile Commissioner. Definite areas have been allotted to the various industrial centres to save duplication and cross transport. Still there is lack of free unrestricted and expeditious movement of cloth from the manufacturing centres to the consuming areas which is one of the causes of black marketing that has developed in spite of all controls.

In the last quarter of 1943 the consumer felt some relief when the prices fell by about 40 per cent in some lines. It was believed that the fall in prices would be more marked and continuous. But all hopes were belied and again the black market developed in the first quarter of 1944. The mills have not been co-operating with the controlling machinery. The retail prices are

marked 20 per cent higher than the ex-mill prices. Of this 5 per cent is taken for the freight and other incidental charges, 5 per cent as the profit of the wholesaler and 10 per cent is allowed to the retailer. But the mills have put up bogus agents through whom they supply cloth to the trade and it has meant a great hardship particularly to the retailer. At times these agents take away even as much as 10 per cent. Another malpractice complained of is that these agents withhold popular qualities from the trade and against one bale of popular brand they force say four bales of unsaleable stuff on the retailer. Again the agents demand cash premiums from the wholesalers and the wholesalers from the retailers. The cumulative effect of all this is that quality cloth is scarce at any price in the markets.

To combat these evils and ensure a fair and equitable distribution of the mill output the Committee of the Textile Control Board decided upon a scheme published in the Gazette of India Extraordinary dated 28th April 1944. The years 1940, 1941 and 1942 were taken as basic years. It was made compulsory for every mill to sell only to those wholesalers who purchased from the mill in these standard years. The quantity to be sold to each dealer was to be based on the present rate of production in proportion to what was sold in these standard years. Similarly the wholesalers should sell to the retailers on the same basis. By this arrangement the undesirable element that entered the trade in 1943 to reap abnormal profits would be eliminated. But one must not be very sure of preventing the mills from receiving cash premiums. At any rate it would make some improvement over the existing arrangements. As a drive against black marketing the Madras Textile Commissioner commanded the production of two mills at Coimbatore suspected of malpractices while the Bombay Textile Commissioner cancelled the licenses of 38 prominent cloth and yarn dealers.

and has frozen their stocks. On 24th of May 1944 the Textile Commissioner announced the seizing of two Bombay mills to be run by a Controller appointed by the Government. In addition the production of seven mills (five in Bombay and two in Ahmedabad) was taken over and was thereafter distributed under the orders of the Textile Commissioner. These measures were meant as a warning to others. Without a firm hand it is not possible to curb the profit instinct of the manufacturer or the trader. They must of course have their fair returns but by no means should they be allowed to fleece the poor consumer at whose expense the industry has thrived so long.

Another question that should engage the attention of the State and the industry is the shortage of coal supplies to the mills. It is threatening production. According to Mr Thackersey the loss of production due to lack of fuel for the 5 months ended February 1944 was about 3.6 crore yards or enough cloth to clothe 3 million people for a year on the basis of 12 yards per head per annum. The Government should ensure supplies of coal to the producing centres which will increase production.

We believe the distribution would have been more satisfactory if the organization had been decentralized and the consuming public taken into greater confidence. At present the industry is dominating the Government controlling machinery.

## A PLAN FOR THE FUTURE

The cotton textile industry is the most important industry in India from every point of view. Before the war it gave employment to about  $4\frac{1}{2}$  lakhs of people and had a paid up capital of Rs 46 crores. The total Block cost was about Rs 100 crores. As regards splendour and magnificence it was fifth in the world, but as regards consumption

of cotton it was only second. At present we have about 400 mills with about a crore of spindles and two lakhs of power looms. Many of these mills are working double and some even treble shifts. One may enquire, 'How long will the industry enjoy this prosperity?' Say for the duration of the War and a few years after. Will history then repeat itself? Again the mill owners will raise a hue and cry and exert their influence in the press and on the platform to save the 'national industry' from crisis—against dumping of goods from Japan, the United Kingdom, the U S A or may be even Russia! It will cry for more and more tariffs and trade barriers. The national sentiment will be invoked. One may ask, 'Has the industry acquitted itself creditably well? Has it stood by the consumer? Has it justified the grant of tariffs?' Without attempting to answer these queries seriatim it will be enough to say that what is needed is a proper rationalization of the industry in the interests of all concerned if it is desired to put it on a stable basis.

The International Economic Conference of 1927 defined rationalization as 'the methods of technique and of organization designed to secure the minimum waste of either effort or material'. It includes 'the scientific organization of labour, standardization both of material and of products, simplification of processes and improvements in the system of transport and marketing'.<sup>1</sup> Since then many a definition of this word has been given. Probably the most scientific is that of the International Labour Office issued in 1931 viz 'Rationalization means that instead of traditional processes established routine, empirical rules and improvizations, use is made of methods that are the fruit of patient scientific study and aim at the optimum adjustment of means to ends, thus securing that every effort produces the maximum useful results'. While rationalization aims at reduction of costs, it

1 *The Social Aspects of Rationalization* (I L O.) p. 6

should ensure increased wages and a better standard of living to the worker and lower prices to the consumer. It means that every section of society concerned must benefit. The worker is afraid of subordinating man to the machine and depriving himself of all interest and initiative in his work. He dreads unemployment. In most cases the efficiency methods exhaust the worker before time. Again rationalization aims at combinations and mergers. These powerful trusts exercise semi monopolistic powers. Unless they are inspired by national interests or controlled by the State, they will not care for the interests of the consumer when foreign competition is checked by tariffs. The State, should therefore guard against these pitfalls. While we admit that all sorts of wastes should be eliminated we must not unnecessarily encourage combinations or introduce more and more capital into industry at the cost of labour. This sort of economy will not suit India. The Indian Mill industry supplies about 68 per cent of cloth and gives employment to about  $4\frac{1}{2}$  lakhs of people only. As against this the hand loom industry that supplies only 27 per cent of our cloth requirements provides employment to about 60 lakhs of people. In this country where capital is comparatively scarce and labour plentiful we should not aim at imitating the United Kingdom because the conditions obtaining in the two countries are not similar. We must however, learn by their experience and faults and try to adopt methods suited to our own conditions.

#### LINES OF RATIONALIZATION OR PLANNING

- (a) Encouragement of the Production of Long stapled Cotton
- (b) Saving in Labour Cost
- (c) Combination
- (d) Regional specialization — Decentralization of the industry — Co ordination with the hand loom

- (e) Financial Organization
- (f) Marketing — Inland and Export Trade
- (g) Production of textile machinery within the country
- (h) Production of Chemicals and other stores
- (i) Training in Mill Management
- (j) Technical Education
- (k) Research Work
- (l) Encouragement and proper utilization of Power Resources
- (m) Collection and Dissemination of Industrial Data
- (n) Railway Rates Policy
- (o) Fiscal Policy

## RAW MATERIAL

Cotton is the most important single element in the manufacture of cloth. It accounts for about 50 per cent of the total cost. Therefore every possible economy must be made in its production and use. India is the second largest producer of cotton in the world at present. The acreage under cotton in India is almost as much as in the United States of America, but the yield is far less here. In 1940-1 the acreage under cotton in India was 2,32,86,000 as against 2,38,61,000 acres in the U S A. in 1940, but the yield was estimated at only 59,03,000 bales of 400 lbs each as against 1,57,07,000 bales in the U S A. for the respective periods. This shows the glaring difference in yield between the two countries while the acreage is almost the same the yield here does not approach even half that of America. Again, India is the home of short stapled cotton of which we exported about 8½ lakh bales to European countries and about 15 lakh bales to Japan before the War. During the War, particularly after August 1941 when our exports to Japan were stopped, there was a continuous decline in the foreign



off take Our imports of long stapled cotton in the three pre war years were as follows

1937 8	1938 9	1939 40
	( Bales of 400 lbs. )	
7 53 000	5 40 000	4 68 000

The mill consumption of cotton of over 1 staple was 6 35 000 bales in 1941 2 while Indian production was less than even 2 lakh bales During the War the production of long stapled cotton has gone up under encouragement from the State But the position is not still quite satisfactory There is no reason why we cannot be at least self sufficient in the supply of quality cotton for our growing industry

Another question that should engage the attention of the industry is the method of procurement of cotton from the village There is an unnecessarily long chain of middlemen The mills should purchase cotton on the Japanese model — through combines They can easily organize regulated markets and improve the quality in co operation with the Indian Central Cotton Committee

### SAVING OF LABOUR COST

Labour is another co partner in the industry Its share is about 25 per cent of the total cost Every waste should be eliminated and efficiency measures introduced wherever possible 'Whereas here in India we employ about 4 50 000 operatives to work into textile fabrics about 35 lakhs of cotton bales annually only 1 90 000 Japanese workers handle this quantity of cotton ' It is wrong to think that Japanese labour is sweated labour It is contented and well looked after The standard of living of the Japanese worker may not be as high as that of the British worker but is certainly higher than that of the Indian worker The industrialists should take labour into co partnership and with its co operation introduce efficiency measures The

two Textile Tariff Boards of 1927 and 1932 and the Fawcett Enquiry Committee of 1928 laid stress on efficiency of labour. But not much has been done so far. The only justification for machine can be its power to mitigate human toil and drudgery. If the number of hours are substantially reduced and the worker is allowed to pursue intellectual and spiritual pursuits in the leisure hours, if he is better fed, better clothed and better housed, if he is more care free and if he is more self respecting and a better citizen, the machine may replace man, but not otherwise.

### COMBINATION

An attempt was made in 1930 to pool the resources of about 30 mills in Bombay. But the scheme fell through, chiefly on financial grounds. The mills did not accept the valuation figures of their Blocks given by the experts and being individualistic in their outlook they hesitated to combine. The managements of smaller ones among them were afraid of losing their power and position as Managing Agents. It is rather a *petty bourgeois* point of view, but most of the industrialists suffer from this. In any future scheme the same difficulties will arise. Besides, there are well defined limits beyond which centralization fails to yield satisfactory results. As the Tariff Board of 1932 observes: 'In the existing circumstances of the cotton textile industry better results are likely to be attained by economies accruing from close personal attention than from production or management on a larger scale.'

What then is the optimum size of a spinning and weaving mill? 'The general consensus in the trade is that a print-cloth mill of about 60,000 spindles attains the principal economies of large-scale management. For a mill producing coarser yarn fabrics such as sheetings, maximum efficiency could be attained in a mill of not much over 30,000 spindles.

These economies are largely economies of plant and plant layout rather than due to technical efficiency. Smaller mills could for practical purposes be considered as equally efficient in technical operations.<sup>1</sup> According to the evidence of Mr Kasturbhai Lalbhai for the Province of Bombay mills of more than 40 000 to 50 000 spindles and 1 200 looms had been found by experience to be too big to run as efficient single units. The average size of units in Ahmedabad is somewhat smaller than that of the fair sized unit favoured by Mr Kasturbhai Lalbhai; the size of the average unit in Bombay approximates more closely to it.<sup>2</sup> In India we have combinations of a different type. A firm of Managing Agents like that of Birlas or Singhanias or Andrew Yule may be in charge of a number of concerns in the same lines or different lines. All possible economies in the buying of materials and stores and in marketing and research can be made possible. Therefore the case for mergers is not very strong in this country. But collective action or combination for purchase of machinery consumable stores and imported cotton for organizing insurance of risks or for negotiating with electric companies for power must result in substantial profits to the combining units.

### REGIONAL SPECIALIZATION

Bombay had the initial concentration of the industry owing to the existence of a big cotton market, presence of enterprising businessmen, nearness of raw materials, availability of cheap transport facilities and a humid climate. By the end of the last century the trade in yarn with China and Japan was lost but the internal market developed rapidly instead. The industry developed at different centres in the country to cater to regional needs. Now the

1 S. J. Kennedy *Profits and Losses in Textiles* 1936 p. 186

2 Bombay Textile Labour Enquiry Committee Report (1940) p. 213

principal centres of the textile industry are Bombay, Ahmedabad, Sholapur, Cawnpore, Madras, Madura, Coimbatore, Calcutta, Delhi and Nagpur. In the Bombay Province itself, the pre eminent position of Bombay City as the home of the cotton industry is being challenged by Ahmedabad, called by some as 'The Bolton of the East'. Cawnpore enjoys a strategic position and is the seat of British and Indian capitalists.

Along with decentralization of the industry is also discernible a tendency of regional specialization. Bombay produces mainly cloth of light texture from medium and higher count yarn, and the cloth compares fairly well in quality with the English cloth imported into India. Grey and bleached plain weave cloths account for about 60 crore yards of the total production, dhoties about 40 crore yards and coloured goods between 25 to 30 crore yards. During the last few years the output of coloured and better quality white cloth has substantially increased.

The annual production of Ahmedabad is about 100 crore yards of piece goods of a wide range. Dhoties and saris are produced on an extensive scale and increasing attention is being paid to cambrics and prints. Madras has specialized in high class cotton coatings, bleached shirtings and drills and khakis. Southern India has developed a large spinning industry, mainly in the districts of Coimbatore, Madura and Tinnevely, thanks to the completion of the Pykara hydro electric scheme in the year 1930 and the keen interest shown by the Provincial Government and the local industrialists.

Mills in Cawnpore, Delhi and the Punjab produce mostly coarser cloth from short stapled cotton. Cawnpore gets quality cotton from the Punjab. Central Provinces and Central India have a fair number of mills with scope for considerable development. However, the most remarkable

progress is made in Indian States, where the rulers have given various forms of concessions in taxation, etc. and where the labour laws are not strictly enforced. In the last decade or so the number of mills in the States has gone up from 43 to 65 and the paid-up capital from Rs. 4½ crores to Rs. 6½ crores. Most of the mills produce coarse count yarn and cloth, but a few mills in Baroda State are specializing in fine count cloth and Indore mills are taking to the production of coloured goods.

The tendencies towards decentralization and specialization are good in themselves, but there is need for further decentralization of the industry if it is to be put on a healthy basis. Now that hydro electric schemes are projected and some completed, the task of carrying the industry to the smaller towns in the countryside will be easier. We see no justification for Cawnpore becoming greater Cawnpore and Ahmedabad becoming greater Ahmedabad. In 1931 the population of Cawnpore was less than 4 lakhs. Today it is estimated at over 10 lakhs. Partly it is due to the war activities, but these activities could as well have developed in the countryside. For example, in the United Provinces textile mills can easily be established in Saharanpur, Aligarh, Hathras and Etawah. These towns are in the cotton producing region and have the facilities of hydro-electric power and cheap transport. They are very good consuming centres. The whole countryside would be up with activities. The standard of living of the people would improve and education would spread faster than otherwise. The same can be said about Ahmedabad, Bombay, Calcutta and Madras. People are living in dirty and dingy chawls and busters. The housing problem is very acute in these cities. Every effort should therefore be made to decentralize the industry in future planning.

## THE HAND LOOM

Another line in which improvement is desirable is the co ordination of the hand loom and the mill industry. India has been famous for her hand loom industry in all ages, in spite of the formidable competition of home and foreign mills the hand loom weaver has been able to keep his head out of water. According to the Fact Finding Committee the total number of hand-looms in India is about 20 lakhs of which about 17 lakhs are active. The total number of weavers is estimated at 24 lakhs and of their assistants at about 36 lakhs. In all the total number of workers is about 60 lakhs. The average normal pre war output of hand looms may be estimated at 180 to 190 crore yards of cloth and the total value of hand-woven cloth in India for 1939 works out at Rs 72·8 crores for all kinds of textiles—cotton, wool and silk. The hand loom has been supplying about 30 per cent of our requirements. The demand arises principally from two quarters—(a) for highly artistic and finished goods and (b) for coarser goods needed by the village folk.

An interesting question may be asked 'Has the Indian mill replaced the hand loom?' No, not so far. The Indian mill has replaced the foreign mill but not the hand-loom. The following figures will clearly indicate the position.

	In Crore Yards		Increase or Decrease	
	1913-14	1938-9	Actual	Percentage
Mill Production	116·4	426·9	+310·5	+267
Hand loom Production	106·8	192·0	+ 85·2	+ 80
Imports	319·7	64·7	-255·0	- 80

During the war period, for which figures are given elsewhere, the mill production has improved but the output of the hand loom has considerably fallen, owing to the paucity of yarn, while imports have dwindled into insignificance. For

the future, it is feared that when the home mills have completely replaced the imports except for certain fastidious tastes, it will surely attack the hand loom and unless ways are devised to protect it, the hand loom will die a natural death in spite of customs and tastes that have preserved it so long. Further, with the development of the means of transport, the mill cloth will reach the remotest corners of the country where it could not have penetrated so far. It will be a tragedy if a vast number of people employed in the hand loom industry are thrown out of employment.

Since 1920 the Central and Provincial Governments have evinced interest in the promotion of technique and labour-saving appliances in hand loom industry. They have imparted instructions in designing dyeing and printing, and have also assisted in marketing the finished products through Government emporiums, as in the U P, Bihar and Assam. Since 1935, the Government has given an annual grant of Rs 5 lakhs for the development of the hand-loom industry.

The work of the All India Spinners' Association deserves commendation. This organization acts as a guide, philosopher and friend to the artisan. It supplies implements, raw material, finances and designs and undertakes to market the produce of the weavers through a central selling agency which secures better prices for their goods. It ensures a fair wage to the spinner as well as the weaver.

Besides the 20 lakh hand looms India has about 11,640 small power looms of which 6,350 or 55 per cent are in Bombay Presidency and the rest are scattered all over the country but mostly in the South. With the spread of hydro electric power in the countryside such looms have great possibilities of development.

Now, what is needed is a proper co ordination of the mill, the hand loom and the small power loom. The per capita consumption of cloth before the war was about 16 yards

a year as against 30 yards for the world. The Bombay industrialists aim at 30 yards. Even to attain this figure a vast expansion of the textile industry will be necessary. But on a critical examination we find that our consumption per head has not exceeded 16 yards or so, although the industry could produce the cloth. Therefore the crux of the problem lies in the low purchasing power of our people. These teeming and toiling millions cannot afford to purchase cloth, much as they need it. Hand-loom is only next to agriculture as the largest single industry providing employment. Again, while the wages bill in a mill comes to about 25 per cent of the total cost, it is about 40 per cent in hand weaving with mill yarn, and nearly 75 per cent in hand-weaving with hand spun yarn. This is the greatest justification for Mahatma's advocacy of the 'Charkha'. If industrialization means the decay of village arts and crafts, it will greatly undermine the 'serenity, poise, dignity, spaciousness, proportion, graciousness, deep-rooted sureness, and elemental simplicity and beauty'<sup>1</sup> which have been part and parcel of our village life in the past and have won the admiration of the best minds in all ages.

To save the hand-loom we must follow the example of Japan. In a predominantly hand-loom centre the planning authority must not permit the establishment of a weaving mill. A spinning mill is welcome because it will supply yarn to the weavers. Hand woven cloth is more durable. Bleaching, dyeing and finishing may be done by a large mill because it will cost less. The mill should leave the manufacture of very fine and very coarse cloth to the hand loom which is also at an advantage in the production of multi-coloured cloth or cloth inter woven with gold or silver like the Benarasi sari. In all lines the hand loom must get preference where it works at lesser cost.

<sup>1</sup> Mr P. M. Gandhi's article in the *Indian Finance Supplement*, 1944



This co ordination of the mill and the hand loom on a co operative basis will provide employment for millions in healthy and spacious environments it will lead to greater specialization of products and correct the evils of excessive industrialism which result in overcrowding of cities and frequent strikes and lock outs It will reduce freights eliminate middlemen, and release capital for better ends.

### FINANCIAL ORGANIZATION

According to the orthodox principles of industrial finance, the promoter must find not only the Block capital but also that part of the working capital which is more or less permanently locked up in the business in the form of raw materials finished goods, stores and sundry debtors. Contrary to this our mills have depended even for part of their Block capital on the 'deposits' of the investing public—a practice which has been very popular in the Bombay Presidency particularly in Ahmedabad. The 'deposit system' has been characterized as a fair weather friend and the Central Banking Enquiry Committee and other bodies have stressed the need of popularizing debenture issues. At present finance is dominating the industry. The promoter finds the initial capital and later on in the role of Managing Agent he arranges the working capital on his own signature as surety. This dependence of the industry on finance must be removed if the industry is to be put on a sound footing. And that is possible only when the investing habit is developed and the investing public takes a little more interest in the affairs of their companies.

Another problem of finance is about recapitalizing of mills that were at one time or other over capitalized. The Tariff Board of 1927 recommended a drastic reduction of capitals of textile mills. The Tariff Board of 1932 expressed satisfaction at the progress in the reduction of capital of

Bombay mills where it was most desired. The Tariff Board of 1936 held that the average capital cost of the mills which worked out at Rs 63 per spindle and Rs 1 575 per loom represented a fair estimate of capitalization for the purpose of calculating the overhead charges. The Bombay mills are still over capitalized. The planning authority should carefully examine the capital structure of every company and advise for reduction of capital where necessary.

Trade bills that can be discounted and rediscounted at banks are not yet quite popular in India. As an alternative to this, borrowing against floating assets, e.g. stocks of cotton yarn and cloth, is universal. Although the incidence of interest charges is not very heavy the credit machinery is not well developed as in other industrially advanced countries. To remedy this defect a system of licensed warehouses which could issue warehouse receipts like the warehouses at ports, will work well. These receipts should serve as documents of title and can be pledged with banks as security. To provide credit against goods in transit by rail it is necessary to treat the Railway Receipt as a quasi negotiable instrument like the Bill of Lading.

## MARKETING

1 *Inland*—Marketing including merchandizing and salesmanship, occupies a very important role. During the last two decades it has held a very important place in any scheme of reconstruction. After the war there will be a mad race for markets, and foreign companies backed by their Governments, are closely studying our future requirements. Unless we improve our marketing organization immediately we shall not only lose the little hold that we have gained in foreign countries during these few years at considerable sacrifice and suffering of our own people, but we will find foreign cloth and yarn dumped

into India as was done after 1931. We should therefore set our own house in order, to save it from impending disaster. For this joint action by mills is essential. They should carefully study inland demands through their accredited agents at important distributing centres. A central selling organization should be set up for this purpose which should invite criticism and suggestions from different Chambers of Commerce and other trade organizations and collect statistical data of production and consumption of different centres within the country. It should examine the relative merits of foreign and inland cloths and make suggestions to the mills concerned. Again, there is a large army of middlemen in rural and urban towns. Is it not possible to cut some of the links in the chain? It is not the number of middlemen but the links in the chain of middlemen that really matters. The cost to the final consumer should come down. Sale by trade mark and trade number should be encouraged and emphasized. The Bombay and Ahmedabad mills have already adopted this useful device. Branded goods get popular if they are of good quality and this goodwill is of permanent value.

2 *Foreign* — Efforts should also be made to expand the foreign market in textile goods. Two Trade Commissioners were appointed in 1928—one in Alexandria and the other at Mombasa—as a result of the recommendation of the Tariff Board of 1927. Since then practically nothing has been done although the question has been discussed now and then by the Millowners Associations. Our exports of piece goods have been as follows:

1935 6	1936 7	1937 8	1938 9	1939 40	1940 1	1941 2
14 17	19 09	24 12	17 70	22 14	39 01	77 24

crore yards

During the last few years we have exported large quantities which we could ill afford. Will India be able to retain

some of these markets, particularly in Central Asia, South, East and West Africa, Ceylon, Australia and the Pacific Islands? For the duration of the War and a few years after, India has a more or less secure market. But will our manufacturers be able to retain their hold in these markets in normal times? It depends upon their service and sincerity. If they supply the right goods at fair prices they will earn reputation for their wares and it will be difficult for foreigners to oust them easily from these markets. In the War period our manufacturers must not profiteer at the expense of the foreign consumer, otherwise it will leave bitter memories which will affect our trade relations with them. Already there are complaints of bad quality and overcharging from foreign countries. The Textile Control Board framed a scheme of controlling exports of cotton piece goods to overseas countries. The exportable quota was fixed at 60 crore yards to be priced at 12 to 20 per cent over ex mill prices (12 for non discriminating countries and 20 for discriminating countries), of which all except 7 per cent was to go to a Research Fund after meeting the expenses of inspection and supervision incurred by the Board in connexion with the exports. The mills are to manufacture cloth according to the specifications given by the Board. The exporting firms are allowed a margin of 10 per cent which is rather high. There is an apprehension that the importing countries may find our prices too high and may resent this levy.

For normal times the industry must have an Export Development Corporation whose function will be to study the demands of prospective markets, to organize trade missions, to certify the quality of foreign consignments, to establish commercial museums in foreign countries and contact with importing firms, to point out defects in the goods to the exporting mills, and in general to expand the

market for Indian cloth. If properly organized and controlled the Corporation should prove a very useful institution in the post war industrial development.

#### PRODUCTION OF MILL MACHINERY

We are entirely dependent on foreign countries for the supply of mill machinery, tools and implements. This is a very weak point in our industrial system. This weakness was realized in the last war but our benign Government did not take kindly to it for obvious reasons. India could have considerably expanded her production of cloth and yarn and thereby helped the war effort if she could get the necessary machinery. Most of the mills are working double or even treble shifts resulting in heavy depreciations. They need not only renewal and replacement but modernization of the plants if they have to effectively compete in the world markets. We have large stocks of idle cotton which we cannot turn into yarn for want of spinning machinery. The future industrial plans must give preference to heavy industries including manufacture of mill machinery.

#### PRODUCTION OF CHEMICALS AND OTHER STORES

These are of vital importance to the growth of the industry and every effort must be made to produce them within the country. They will give employment to a large number of people and make the industry self reliant in the country.

#### EDUCATION

Training in mill management and technical education need no pleading. From the Industrial Commission (1916-18) to the Grady Mission every Committee and Commission has emphasized the need of technical education. Scientific cum commercial education will accelerate the pace of indus-

trialization It will be a right lead if science graduates are allowed to offer a paper in the principles of industrial organization and cost accounting, and commerce graduates are given the option to offer a paper in general science. The Textile Tariff Board (1927) pointed out that of the 175 directors of the mills in Bombay, only 11 had received practical training The position has not materially improved since then There is dearth of really suitable men at the top in the industry Training in industrial leadership is therefore of the greatest consequence

### RESEARCH

Research to industry is like soul to a body The world is marching ahead in scientific knowledge It is necessary to keep pace with the most modern developments No amount of money or pains should be grudged on this account Proper investigations should be made in the technique of production, such as bleaching, dyeing, printing and finishing processes Practical instructions should be provided in efficient methods of spinning, weaving, designing, dyeing and printing It is hoped the Government will make a proper use of the export levy for research work Besides special institutes for technical research, our Universities can co-operate in working out problems. The Board of Scientific and Industrial Research is doing useful work It should be made permanent

### POWER RESOURCES

India is not very rich in the supply of her coal resources — which are mostly found in the provinces of Bengal, Bihar and Orissa. None of these provinces are important textile producing centres For a few decades Bombay and other centres in the South depended for their power on Bengal coal. But now it has been mostly replaced by electric power.

It is good that the Government is giving preference, in the post war industrial reconstruction, to the development of hydro-electric power. For decentralization of the industry which we have proposed elsewhere hydro electric power is absolutely necessary.

### INDUSTRIAL DATA

The Government agency for collection and dissemination of industrial data is highly unsatisfactory. The information given in the *Review of Trade* and other periodical publications is very much belated and is of little practical value. This work may be taken up by the Chambers of Commerce which are in a better position to collect and disseminate information.

### RAILWAY RATES POLICY

Complaints have been commonly made about the discriminatory policy in railway rates. The cost for carriage of cotton from India to Japan and for import of cloth from Japan to India together is as much as the cost for carriage of cloth 300 miles within the country. India is a country of long distances where cloth is ordinarily carried over 300 miles. The railway rates policy must be so devised as to encourage home manufactures.

### FISCAL POLICY

Lastly the State must have a bold tariff policy. The discriminating protection granted in 1923 has been beneficial to industrialization but it has been a very slow and halting process. The machinery has worked with jerks and jolts and the general impression has been that fiscal power has to be snatched away from unwilling hands. Discriminating protection is now out of date. Every country is contem

plating to have State control on its foreign trade by means of licenses, agreements, priorities, quotas restrictions and prohibitions. India will have to adopt measures to protect her industries and trade

We therefore suggest that there should be a permanent Tariff Board which should not only recommend protection after investigation, as has been done so far, but should examine the effect of tariffs on the development of the industry. It should satisfy itself that the industry has justified the grant of protection by introducing efficient systems in production and distribution and thereby reduced the total cost to the producers and ensured lower prices to the consumers. It should also study the incidence of foreign tariffs and fiscal policies on the local industry.

We may conclude this monograph with the belief that if the measures suggested in these pages are followed in full co operation by the various sections of the industry and the Government, the industry must have a very bright future. In the post war reconstruction the textile industry has to play an important role if the lot of the poor is to improve. There is room for considerable expansion even if the industry is required to meet only the home demand, provided that the Indian peasant commands purchasing power and the general standard of living of the masses improves.



## THE INDIAN WORKING CLASS

By Dr Radhakamal Mukerjee, M.A., Ph.D., Head of the Department of Economics, University of Lucknow

In this monumental work, the author, who has made the subject of labour movement his own, examines in great detail all the aspects and conditions of labour in India with sympathy and understanding, and suggests ways and remedies for the betterment of the working class

### CONTENTS

<i>Chapters</i>	1	The Agricultural Background	2
Methods of Recruitment in Mines and Plantations	3		
Methods of Recruitment in Factory Industries	4		
Conditions of Employment	5	Contract Labour	6
Woman and Child Labour	7	Wages in the Plantations and Quarries	8
Wages in the Coal fields	9	Minimum Wages for the Miners	10
Wages in the Textile Industry	11	Wages in the Engineering and Metallurgical Industries	12
The Approach to a National Minimum Wage	13	Rationalization and Intensification	14
The Standard of Living	15	Housing	16
Social Welfare and Security	17	Trade Unionism	18
Industrial Peace			

Demy 8vo, about 375 pp. with 110 tables.

Price about Rs 15

**HIND KITABS BOMBAY**